

CHAPTER 25: BUYDOWN MORTGAGE POOLS — SPECIAL REQUIREMENTS

25-1: OVERVIEW OF CHAPTER

This chapter describes special requirements that apply for a pool or loan package of buydown mortgages. The requirements described in this chapter may modify, supplement or, in some cases, repeat for the purpose of emphasis those set forth in previous chapters with respect to mortgage eligibility, pool and loan package requirements, required pool and loan package submission documents, and the securities. The pool suffix is “BD.”

BD pools may be formed only under the Ginnie Mae I MBS Program. Individual buydown mortgages, however, may be included in several other types of Ginnie Mae I pools, though not in Ginnie Mae I SF pools, and in most types of Ginnie Mae II pools.

A buydown mortgage is a mortgage for which funds are provided to reduce the borrower's monthly payments during the early years of the mortgage. Buydown mortgages are not subsidized by FHA or VA. The subsidy is usually provided by the construction company or other seller of the property to encourage the buyer to purchase the property. The buydown may be either formal (provided for in the loan documents) or informal (not provided for in the loan documents). If a loan was originated with a buydown provision and the buydown period has expired prior to pooling of the loans, the loan need not be included in a BD pool.

25-2: MORTGAGE ELIGIBILITY AND POOL REQUIREMENTS

The mortgage eligibility and pool requirements that apply, with limited exceptions, to all pool types are found in Chapter 9. The eligibility requirements for Ginnie Mae I SF mortgages found in Chapter 24, other than the prohibition on buydown clauses, apply to BD mortgages. The pool requirements for Ginnie Mae I SF pools found in Chapter 24 also apply for BD pools, except as modified by this section.

- (A) Applicable program: BD mortgage pools may be formed only under the Ginnie Mae I MBS Program.
- (B) Minimum pool balance: As of the date of issue, each BD pool, other than a pool formed pursuant to a BFP, must have an original principal amount of at least \$500,000.

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Section 25-2 (continued)

- (C) Pool composition: In order for a pool to qualify as a BD pool, every mortgage in the pool must be a single family, level payment mortgage, and one or more of the mortgages must include a buydown feature. Any such pool must be denominated a BD pool.
- (D) Interest escrow custodial account: An interest escrow custodial account must be maintained in connection with buydown mortgages for the deposit of buydown funds provided by the issuer. This account must meet Ginnie Mae's escrow custodial account requirements (see Section 16-5), and it must meet FHA's and VA's requirements for such accounts.

25-3: REQUIRED DOCUMENTS

(A) For Certification by Document Custodian

The procedures and basic document requirements for submission of all pools are found in Chapters 10,11, and 13.

The loan documents required for initial and final certification of a BD pool by the document custodian are the same as those discussed in Section 13-4. They are summarized in the following table.

DOCUMENT	FORM NUMBER	APPENDIX
FOR INITIAL CERTIFICATION		
Schedule of Pooled Mortgages	HUD 11706	III-7
Release of Security Interest, executed original, if applicable	HUD 11711A	III-5
Certification and Agreement, executed original	HUD 11711B	III-5
Original notes (or, in the case of modified loans, the original notes executed for the modifications) or other evidences of indebtedness, endorsed in blank, without recourse		
For nonprofit agency section 203(k) loans, FHA affordable housing program letters		

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Section 25-3(A) (continued)

FOR FINAL CERTIFICATION		
Original recorded mortgages (or, in the case of modified loans, the recorded original mortgages, the related original notes, the modification agreements, and any required subordination agreements and/or title endorsements)		
All recorded interim assignments		
Evidence of good title (e.g., mortgage title insurance policies)		
Evidence of mortgage insurance or guaranty provided by FHA, VA, RHS, or PIH (not required for manufactured housing). In lieu of an original MIC signed by FHA or LGC signed by VA, electronic confirmation from FHA Connection or VA's TAS is acceptable.		

(B) For Approval by PPA and Ginnie Mae

The BD pool documents required for approval by Ginnie Mae are the same as those discussed in Section 10-3, except as modified below.

- (1) All references to "pool number" on all forms must include the suffix "BD."
- (2) Schedule of Subscribers and Ginnie Mae Guaranty Agreement, form HUD 11705 (Appendix III-6), which must indicate in the block "Type of Issue" that the pool is "X" and in the block "Pool Type" that the securities are to be "BD."

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Section 25-3(B) (continued)

- (3) Schedule of Pooled Mortgages, form HUD 11706 (Appendix III-7), which must identify each of the loans as a buydown by including in the column titled "FHA-VA-RHS-PIH Case Number" the full agency designated number, including the code identifying each loan as a BD loan. Also, the "Monthly Constant (P&I)" is the total fixed installment constant, including amounts collected from the mortgagor and from the escrow custodial account.
- (4) Unless the pool is submitted by GinnieNET 5.2, a prospectus, form HUD 11717 (Appendix IV-4), which must be modified as follows:

The issuer must include the following text by typing it on the "Annex — Special Disclosure," which is attached to the prospectus.

BUYDOWN MORTGAGES

Some or all of the pooled mortgages are level payment mortgages for which funds have been provided to reduce the borrower's monthly payments during the early years of the loans.

- (5) A BFP certification (Appendix III-12) if required pursuant to Sections 25-2 and 24-2(B)(2).

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Section 25-3(B)(5) **(continued)**

The following table lists the pool documents required by the PPA for approval of BD pools.

DOCUMENT NAME	FORM NUMBER	APPENDIX
Schedule of Subscribers and Ginnie Mae Guaranty Agreement	HUD 11705	III-6
Schedule of Pooled Mortgages	HUD 11706	III-7
Master Servicing Agreement	HUD 11707	III-1
Master Agreement for Servicer's Principal and Interest Custodial Account	HUD 11709	III-2
Master Agreement for Servicer's Escrow Custodial Account	HUD 11720	III-3
Master Agreement for Servicer's Escrow Custodial Account (custodial account for deposit of buydown funds provided by issuer)	HUD 11720	III-3
Master Custodial Agreement	HUD 11715	III-4
Prospectus (for pools submitted in paper format)	HUD 11717	IV-4
BFP certification, if required		III-12

25-4: THE SECURITIES

Preparation and delivery of the securities through the depository are described in Chapter 12. The text of BD securities held in certificated form is set forth in Appendix IV-11, and a partial statement of the terms of BD securities held in uncertificated form is set forth in Appendix IV-17. This section describes additional requirements for securities backed by BD pools.

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Section 25-4 (continued)

Buydown securities must be clearly differentiated from other types of Ginnie Mae MBS in all forward market and other transactions. Therefore: In all communications relating to such transactions, issuers must clearly disclose that the securities to be delivered are backed by a BD pool. Also, before delivery, issuers must obtain for their records from each dealer or investor to which the issuer is selling securities a confirmation statement clearly disclosing the nature of the pool underlying the securities to be delivered.

An issuer must retain these confirmation statements as records subject to Ginnie Mae's right of inspection.

The buydown securities are distinguishable from other Ginnie Mae MBS by the suffix "BD" in each certificate number. Otherwise, the security is the same as the single family, level payment, nonbuydown security.

25-5: POOL ADMINISTRATION

Pool administration requirements for all pool types are described in Chapters 14 through 20. This section describes additional requirements for the administration of BD pools.

(A) Computation of Payment

Scheduled recovery of interest is determined as described in Section 15-4, except that scheduled interest due on the mortgage includes amounts scheduled to be collected from both the mortgagors and the providers of the buydown funds. Issuers are responsible for making advances and for losses that may arise as a result of shortfalls in funds from either of those sources.

(B) Monthly Reporting Requirements

Funds due from the providers of buydown funds are accounted for as if they were due from the mortgagor. These receipts must not be reported separately on the Issuer's Monthly Accounting Report form HUD 11710-A (Appendix VI-4), but must be aggregated with receipts from the mortgagor.